

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3647-01
BILL NO.: HB1450
SUBJECT: Elderly; Social Services Department
TYPE: Original
DATE: January 31, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$3,919,578)	(\$22,298,909)	(\$32,717,411)
Total Estimated Net Effect on <u>All</u> State Funds	(\$3,919,578)	(\$22,298,909)	(\$32,717,411)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Consolidated Health Care Plan**, the **Department of Public Safety - Missouri State Highway Patrol**, the **Office of Attorney General**, the **Department of Conservation**, the **Department of Transportation**, and the **Office of State Courts Administrator** assume this proposal would not fiscally impact their agencies.

Department of Social Services (DOS) - Division of Aging (DA) officials state that according to the Office of Administration - Division of Budget and Planning approximately 745,000 Missouri seniors are age 65 or older. DA states that according to the 1990 Census of Population, U. S. Department of Commerce, the Social and Economic Characteristics report states that 365,633 seniors age 65 or over have an annual gross income at or below \$35,000. DA states that according to the Missouri Department of Revenue, 191,249 seniors over age 65 submitted state tax returns with an annual adjusted Missouri gross income at or below \$35,000. DA states that according to the DOS - Division of Medical Services, the current age 65 or over Medicaid population is 77,324. DA states that there are approximately 2,000 pharmacies registered as Medicaid participating vendors through the Division of Medical Services.

DA states that according to the AARP Public Policy Institute (report #9914, September, 1999), outpatient prescription drugs are not covered under Medicare and represent a substantial out-of-pocket burden for many seniors. Approximately one-third of seniors that have Medicare have no form of supplemental drug coverage and those that do have coverage still face burdensome out-of-pocket expenses due to inadequate coverage. The study estimates that seniors may spend as much as 30% of their annual income on out-of-pocket drugs alone depending on their social, economic, and health conditions. The study stated the following conclusions:

1. Private sector drug coverage is often inadequate; 25% of the Medicare beneficiaries spend \$500 or more out-of-pocket on drugs in a given year:

- 22% spend less than \$1 per year
- 34% spend \$1 - \$199 per year
- 19% spend \$200 - \$499 per year
- 13% spend \$500 - \$999 per year
- 12% spend \$1,000 + per year

DA assumes this proposal would create a pharmaceutical assistance program to provide reimbursement to seniors age 65 or over who: 1) have adjusted gross income (Section 62 of US Internal Revenue code) of \$36,000 or less; and, 2) spend five hundred dollars or more annually

ASSUMPTION (continued)

on pharmaceuticals. DA assumes that the recipient would need to offer proof of the previous year's federal taxable income. In the event that taxes are not filed by the applicant, DA would be responsible for determining eligibility for participation based on the language contained in Section 62 of the US Internal Revenue Code. DA assumes that there is no reimbursement for the first \$500 of pharmaceutical expenses paid by the senior. DA also assumes that all pharmaceuticals prescribed by a physician are eligible for inclusion in computing the deductible and issuing the reimbursement and that this would include out-of-pocket co-pay and deductibles from private drug-coverage insurance. DA assumes they would reimburse qualified recipients 75% of the amount they actually spend on pharmaceuticals for a maximum of \$1,000.

DA estimates the qualified recipients assuming that percentages of out-of-pocket prescription costs are transferable to the population within the qualifications of this proposal. Based on the findings of AARP, DA has calculated the group of potential eligibles:

Number of age 65 or over seniors with income* at or less than \$50,000	368,190
Less 22% of seniors spending less than \$1	(81,000)
Less 34% of seniors spending \$1 - \$199	(125,185)
(The 22% and 34% presumable include over 65 Missouri Medicaid population of 77,324 making a small copay for prescriptions.)	
Less 19% of seniors spending \$200 - \$499	<u>(69,955)</u>
Projected potential eligibles	92,050

*Income is based on gross income ranges from the U. S. Department of Commerce States; adjusted gross income data not available.

DA states that because there is a presumption that pharmaceuticals are a burdensome expense to seniors who do not otherwise qualify for medical assistance, it is reasonable to estimate a participation rate of 70% for qualified individuals.

Projected potential eligibles	92,050
Projected 70% participation rate	64,435

DA states that based on AARP findings, reimbursement for out-of-pocket expenditures show 92,050 (25%) of the total eligibles (368,190) would qualify for reimbursement. Of that group, 13% spend between \$500 and \$999; 12% spend more than \$1,000. Therefore, of the percent of the group eligible for reimbursement, 33,505 (52%) would spend between \$501 and \$999 per year and 30,505 (48%) would spend in excess of \$1,000 per year for out-of-pocket drug expenses. DA states that reimbursement would be issued at 75% of cost for a maximum of ASSUMPTION (continued)

\$1,000 per year. Assuming no reimbursement for the first \$500, the state would reimburse a

minimum of \$.75 for a senior spending \$501 to a maximum of \$1,000 for a senior spending \$1,834 or more on pharmaceuticals (\$1,834 - \$500 non-reimbursable at 75% = \$1,000).

Projected participating seniors spending between \$501 and \$999 per year:

33,505 participants x average reimbursement of \$187 = \$6,265,435

Projected participating seniors spending over \$1,000 per year:

30,930 participants x average reimbursement of \$687 = \$21,248,910

Total Projected Annual Reimbursement Costs \$27,514,345

Currently there are over 2,000 pharmacies in the state of Missouri. DA assumes that the administrative costs associated with claim submission would be applied to the amount of prescriptions eligible for reimbursement. Because recipients have multiple claims throughout the year, DA anticipates that the majority of the claim submission would be provided as a service by the pharmacy. Therefore, it is reasonable to apply an administrative cost of 2% of the anticipated reimbursement.

Projected Annual Administrative Costs on \$27,514,345 @ 2% = \$550,287

Administrative costs (2%) for pharmacies would be based on claims eligible for inclusion in the program (rather than all claims submitted). The payment of administrative costs would be issued to the pharmacy. DA anticipates an eighteen month phase-in before reaching full participation, reaching a 33% reimbursement rate by the end of FY2001 and a full participation rate by the end of FY2002. FY2002 and FY2003 costs include a four percent inflation adjustment for pharmaceutical reimbursements.

DA would establish a program unit to determine eligibility and process claims for the pharmaceutical program. An Aging Program Administrator would be needed to provide program development, administer and provide oversight to the program and eligibility determinations, supervise staff, ensure accountability and monitor the outcome of the program. One Clerk Typist III position would be needed to provide necessary support to the Program Administrator. The program unit would be divided into two sections, the Claims Processing section and the Eligibility Determination section; all staff would be located in Jefferson City.

DA states that based on information obtained from MOSERS in regard to cafeteria plan claims processing, it is assumed that approximately 120 claims for reimbursement can be processed per day. The Claims Processing section would require 131 Account Clerk II positions (64,435 claims x 4.68 claims submitted per person per month x 12 months / 120 claims processed per day / 230 days per year). On average, one staff person works 1,840 hours per year based on 2,080 standard hours per year less 120 hour for holidays, 80 hours for annual leave, and 40 hours for

ASSUMPTION (continued)

sick leave). The Account Clerk II would review claims, examine invoices prior to payment to determine propriety of expenditures by checking mathematical facts, comparing units invoices to units received, maintain records of individual charges, tracking cap limits on individuals, authorize reimbursement for claims, monitor claims, provide feedback to the recipients, calculate administrative allowance for participating pharmacies, and monitor reimbursement.

The Eligibility Determination section would be staffed by 7 eligibility Case Workers (64,435 claims x 15% random sampling income and asset verification = 9,665 claims at an average of 6 claims per day/230 days per year). Based on information from DOS - Division of Family Services, an eligibility and restitution worker can process an average of six cases per day due to the amount of work involved. (If the workers had to conduct income and asset verification on every client then it would result in a need for 47 Case Workers.) The eligibility Case Workers would provide program assistance to agency clients, determine initials and continuing eligibility for recipients of pharmaceutical assistance reimbursement, verify information received from clients, and conduct income and asset verification. The clients would be asked to sign attestations to the facts that their adjusted annual gross income is less than \$35,000 and the Eligibility Caseworkers would conduct a verification base on a 15% random sample of the cases.

Claims may be submitted by the recipient or the pharmacy; however, DA assumes the reimbursement would be made to the recipient. Based on the assumption that each pharmacy or recipient would continue to request reimbursement for pharmaceutical expenses on a claim-by-claim basis, DA would be required to process payments continuously once eligibility has been established. It is reasonable to assume the state has the authority to reimburse recipients on a monthly basis.

DA assumes, based on historical information, an additional unknown number of individuals would apply for benefits that are not actually eligible for program participation and this would also require review of caseworkers. DA would also create attestation forms for not only asset verification but for those persons who do not file a tax return but who are still eligible for the credit. The new staff would be brought on over a period of eighteen months. To ensure worker oversight, a supervisor to worker ratio of 1:10 would be necessary. One Aging Program Specialist I position in the Eligibility Determination section would be needed to supervise the case workers and ensure program accountability and one Clerk Typist II position would be needed to provide general clerical support to the unit and the supervisor. The Claims Processing section would need 13 Accountant I positions to supervise and review the work of approximately 131 Account Clerk II positions each and 3 Clerk Typist II positions would be needed to provide ASSUMPTION (continued)

support to the thirteen Accountant I positions. One Accountant III position would be needed to supervise and review the work of the Accountant I positions and assist the Area Program Administrator in designing and implementing the claims reimbursement process and one Clerk

Typist III would be needed to provide necessary support to the Accountant III position.

DA would develop brochures regarding the program, applications, approval letter, and reimbursement requests. Although there is a very large pool of potential recipients, it is unknown how many would request information or applications. DA calculated mailing and printing costs using the potential pool of eligible participants (92,535) as those that would request brochures and applications. There is an unknown number of individuals that would not be eligible who would request information.

Brochures at a cost of \$.35 each (92,050 x \$.35)	\$32,218
Forms at a cost of \$.20 per applicant (92,050 x \$.20)	\$18,410
Anticipated Mailing Costs at \$.50 per applicant (92,050 x \$.50)	\$46,025

FY2001 costs for staff and the associated expense and equipment costs are based on a phase-in of the program with costs for the Program Administrator position, the Accountant III position, the Aging Program Specialist I position, the Clerk Typist III positions, and approximately one-third of the supervisors, caseworkers, account clerks, and clerical support and costs for forms and mailing based on the six month period January 1, 2001 through June 30, 2001. FY2002 costs are based on one-third of the remaining staff starting July 1, 2001 and the final one-third starting on January 1, 2002. FY2002 and FY2003 costs include a 3% inflation adjustment for expense and equipment costs and a 2.5% inflation adjustment for personal services.

DOS - Division of Data Processing (DP) would develop a new automated system for determining eligibility, processing claims, and issuing payments. DP would add 3 FTE to develop and maintain the system. DP also notes that there would be computer mainframe processing and storage costs of an unknown amount associated with operating the system.

DOS - Division of Budget and Finance (DBF) would be responsible for processing claims (after they have been inputted into the system by DA and electronically submitted to DBF) and issuing payments. DBF estimates 52% of the 64,435 participants would submit an average of 2.5 claims each year that exceed the \$500 threshold requiring 91,905 checks to be issued. In addition, 48% would submit an average of 7 claims that exceed the threshold requiring 238,000 checks to be issued. DBF includes expenses for 1 FTE to verify coding, prepare reports and documents, and handle returned, lost, and replacement checks. Also, DBF would incur postage costs for mailing 329,905 checks.

DOS - Division of Legal Services (DLS) estimates the number of denied applicants seeking judicial review to be 707. DLS states this number was reached by assuming that, in addition to those eligible, another 10% would apply and be found ineligible. DLS assumes 10% of those denied would seek judicial review. DLS would add 9 FTEs (6 attorneys and 3 clerical support staff) to handle these petitions for judicial review in circuit court.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Costs - DOS - Division of Aging</u>			
Personal services (45 FTE)	(\$232,488)	(\$774,397)	(\$1,011,692)
Fringe benefits	(\$71,490)	(\$238,127)	(\$311,095)
Expense and equipment	(\$310,197)	(\$349,964)	(\$353,624)
Pharmaceutical reimbursements	<u>(\$2,728,350)</u>	<u>(\$20,267,820)</u>	<u>(\$30,354,706)</u>
Total <u>Costs</u> - Division of Aging	<u>(\$3,342,525)</u>	<u>(\$21,630,308)</u>	<u>(\$32,031,117)</u>
<u>Costs - DOS - Division of Data Processing</u>			
Personal services (3 FTE)	(\$82,380)	(\$103,861)	(\$106,458)
Fringe benefits	<u>(\$25,332)</u>	<u>(\$31,937)</u>	<u>(\$32,736)</u>
Total <u>Costs</u> - Division of Data Processing	<u>(\$107,712)</u>	<u>(\$135,798)</u>	<u>(\$139,194)</u>
<u>Costs - DOS - Division of Budget and Finance</u>			
Personal services (1 FTE)	(\$20,380)	(\$25,067)	(\$25,694)
Fringe benefits	(\$6,267)	(\$7,708)	(\$7,901)
Expense and equipment	<u>(\$111,665)</u>	<u>(\$129,628)</u>	<u>(\$133,517)</u>
Total <u>Costs</u> - Division of Budget and Finance	<u>(\$138,312)</u>	<u>(\$162,403)</u>	<u>(\$167,112)</u>
<u>Costs - DOS - Division of Legal Services</u>			
Personal services (9 FTE)	(\$189,465)	(\$233,064)	(\$238,890)
Fringe benefits	(\$58,260)	(\$71,667)	(\$73,459)
Expense and equipment	<u>(\$86,304)</u>	<u>(\$65,669)</u>	<u>(\$67,639)</u>
Total <u>Costs</u> - Division of Legal Services	<u>(\$334,029)</u>	<u>(\$370,400)</u>	<u>(\$379,988)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$3,919,578)</u>	<u>(\$22,298,909)</u>	<u>(\$32,717,411)</u>

FISCAL IMPACT - Local Government

FY 2001
(10 Mo.)

FY 2002

FY 2003

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small pharmacies would be expected to be fiscally impacted to the extent there could be increased administrative costs and an increase in administrative revenues due to the requirements of this proposal.

DESCRIPTION

This proposal would establish a senior citizen pharmaceutical assistance program within the Division of Aging for individuals age 65 or older who have an annual household income of \$36,000 or less. Eligible seniors would apply to the division for assistance after their actual prescription expenditures exceed \$500 for the year. Within the amount appropriated for this program, the division would reimburse eligible seniors for 75% of the amount of their pharmaceutical expenditures, not to exceed \$1,000 per year. Pharmacies would submit a claim on behalf of an eligible senior, and would add 2% to the total charged to cover their administrative costs. The division would prepare appropriate forms and would be authorized to promulgate rules to implement this program. Persons who violate the provisions of this proposal or who would permit or encourage such violations would be guilty of a class C felony if the amount involved is \$750 or more, and would be guilty of a class D felony if the amount involved is less than \$750 but more than \$500.

This legislation is not federally mandated and would not duplicate any other program. It would require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Social Services
Office of State Courts Administrator
Office of Attorney General
Missouri Consolidated Health Care Plan
Department of Transportation
Department of Public Safety

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Missouri State Highway Patrol
Department of Conservation

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "Jarrett".

Jeanne Jarrett, CPA
Director
January 31, 2000